

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 8th June 2010 at 9.30am

PLACE: Aldwych House,
71-91 Aldwych,
London WC2

PRESENT:

Members

J Adam	R Nolan
Ms A Coates	I Pickering
R Fleck (Chairman)	R Sriskandan
R Frith	R Talbut
M Grabowski (Executive director)	S Turley
J Hughes	M Ward
P Lee	A Wilson

Observers

J Bellingham (UK, Department for Business, Innovation and Skills)
Ms P Sucher (Financial Services Authority)
I Drennan (Irish Auditing and Accounting Supervisory Authority)

In attendance

Ms K Cearns P George

Staff

J Grant Mrs H O'Sullivan

ABSENT:

Members

D Thomas

1. Introduction

Mr Grabowski reported that, following a meeting with the FSA and the reporting of the JP Morgan case, material on client assets which is contained within Practice Note 21 may need to be updated in order that there is an agreed approach and expectation as to the extent of the work that auditors will undertake in this respect.

2. Minutes of previous meeting

The minutes of the meeting held on 12th May were approved.

3. Ethics

The Chairman explained that the publication of the feedback and consultation paper on the revisions to the Ethical Standards will now follow the July APB meeting. He promised that a further draft of the paper would be circulated to Board members in the next week to provide an opportunity to comment on amendments arising out of today's discussion.

Mrs O'Sullivan circulated a paper which showed a detailed analysis of non-audit services provided to FTSE 100 companies in 2008 and 2009. Mr Grabowski stressed the importance of those collecting the data getting more information on the services provided where further detail was requested. It was agreed that a meeting would be organised with those involved at the firms to discuss the collection of this data and what further detail might be useful. The information provided will be included with other research in the consultation paper, illustrating the reasons why a detailed analysis is useful. A similar format will be included as a possible template to use for reporting, with guidance on which items would be likely to need further explanation. One board member suggested that this might not be widely used by preparers of financial statements.

In a discussion on investment circular work, it was felt that it would be problematic to split this work between public and private work as it is a technical distinction that is not always made when such services are provided. It was recognised that public reporting on historical financial information is closer to audit-related services than many other non-audit services. However, the fact that there are less independence issues associated with such work can easily be highlighted by audit committees. Further consideration will be given to identifying this work as a separate band, although this would require a separate section within ES 5 to be drafted.

In a review of the feedback and consultation paper, the following points were made:

- The use of quotes would be reviewed and more quotes from parties other than investors would also be included.
- The research in section 3 could more clearly distinguish between work on the wider population of listed companies, work on other public interest entities and work on the FTSE 100.
- A paragraph on the likely areas of interest for SMEs might be included.
- Future monitoring of progress in implementing the proposed changes will be needed, but it is not clear what will be possible and care should be taken in making any description of this work.
- In smaller firms where listed companies are audited, there is often no separate executive and the guidance on Ethics Partners not being part of the executive management could conflict with the need for them to have authority at a

leadership level. Clarification of what constitutes relevant experience might also be included.

- For many SME audits, the fees for non-audit services are greater than those for the audit and consideration would be given to whether the requirement for the Ethics Partner to review all such cases might be restricted to listed companies only.
- On restructuring, the options being consulted on could be brought out more clearly earlier in the section. The exceptions in the case of a partial prohibition need further consideration.
- On conflicts of interest, the practicality of identifying connected parties as defined was questioned. It was agreed that the definition of a connected party would be revisited by the Ethics sub-committee, including a consideration of the difference between connected parties and related parties. Additionally, the threats arising from conflicts of interest caused by relationships with other third parties would be revisited.
- A glossary definition of significant affiliates might be useful.

4. Internal audit

Mr Grant presented the latest draft of ISA 610 that was due for discussion at the forthcoming IAASB meeting. There were three main areas of concern:

A number of APB members thought there needed to be a reference to risk in the paragraph describing factors the auditor considers when determining the planned use of internal audit work. While it was acknowledged that there is some link between risk and the nature of work/the degree of judgement, this was not considered sufficient. The extent and nature of risks is important in determining the extent of the external auditor's work and there should be some limitations on the extent to which the external auditor would be expected rely on internal audit work in areas of higher risk.

A number of APB members were concerned that the wording on direct assistance seemed to endorse this approach. It was also thought that more safeguards were needed. In particular it was considered very important that the internal auditors should not be used for work that involved self-review or a high degree of judgment. It was also agreed that it was important that the arrangements for direct assistance should be agreed by those charged with governance and that the ISA needed more specificity on the nature and extent of review procedures for direct assistance.

The third area of concern related to the extent to which the external auditors should read internal audit reports. It was thought that, in order to assist in identifying areas of risk, the external auditors needed to understand the totality of internal audit work planned and should judge what reports are likely to be of relevance. It was also important for the external auditors to know what internal audit have reported to the audit committee.

5. Next meeting

It was noted that the next meeting of the Board will be held on Tuesday 20th July.